

STATE LANDS COMMISSION

TRANSCRIPTS

June 30, 1992

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MEETING
STATE LANDS COMMISSION

ORIGINAL

1020 N STREET
ROOM 102
SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 30, 1992

10:22 A.M.

Nadine J. Parks
Shorthand Reporter

PETERS SHORTHAND REPORTING CORPORATION

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SACRAMENTO, CALIFORNIA 95827
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MEMBERS PRESENT

Leo T. McCarthy, Lieutenant Governor, Chairman
Jay Ziegler for Gray Davis, State Controller
Susanne Burton for Thomas W. Hayes, Director of Finance

Staff:

Charles Warren, Executive Officer
James Trout, Assistant Executive Officer
Bob Hight, Chief Counsel

Paul Mount
Lance Kiley

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P R O C E E D I N G S

--oOo--

CHAIRMAN MC CARTHY: Good morning, ladies and gentlemen. This is the meeting of the State Lands Commission.

The minutes of the last Commission meetings are approved without objection.

The following items are being removed from today's calendar, for those of you who may be here on these items: Consent Items 5, 20, and 31; and Regular Calendar Items 38, 39, and 40. Any other changes to the calendar for today?

EXECUTIVE OFFICER WARREN: None, Mr. Chairman.

CHAIRMAN MC CARTHY: All right. Without objection, the Consent Calendar Items are adopted as proposed.

Let's move on to the Regular Calendar. Mr. Charles Warren.

EXECUTIVE OFFICER WARREN: Thank you, Mr. Chairman. I'd like to call to the Commissioners' attention the fact that we have a number of requests to speak concerning subjects involved at Waldo Point. There is no item involving Waldo Point on today's calendar. But anticipating that the Commission may want to -- at the conclusion of today's calendar -- hear from

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1 one or more of such representatives, it's my
2 recommendation that those who signed up on the
3 attendance sheets caucus in the hall and select one of
4 their members to make a five-minute presentation to
5 the Commission at the conclusion of today's hearing.

6 CHAIRMAN MC CARTHY: Who is in the audience
7 on that issue?

8 UNIDENTIFIED SPEAKER IN AUDIENCE: I am here.
9 I'll be one of --

10 CHAIRMAN MC CARTHY: Let me ask one or
11 two questions.

12 UNIDENTIFIED SPEAKER: Yes, sir.

13 CHAIRMAN MC CARTHY: We will proceed through
14 the regular calendar. Commissioner Burton has indicated
15 she must leave at eleven o'clock to deal with the budget
16 crisis. I'm certainly willing to listen to a statement,
17 if you'd like to make one, later on. Are you --

18 COMMISSIONER ZIEGLER: Yes.

19 CHAIRMAN MC CARTHY: All right. So, would you
20 kindly --

21 UNIDENTIFIED SPEAKER: We came up here on a
22 chartered bus that is scheduled to go back. We all have
23 jobs and children.

24 CHAIRMAN MC CARTHY: I appreciate that.

25 UNIDENTIFIED SPEAKER: And if we have to sit

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1 here for the entire, I don't think -- that would be a
2 rather cheap shot in the participatory --

3 CHAIRMAN MC CARTHY: Well, how about all the
4 people that came on the other items and also left their
5 jobs or their obligations to attend this one --

6 UNIDENTIFIED SPEAKER: (Interjecting) I
7 understand that. But we really do want to know what
8 happened today in your closed session concerning the
9 draft settlement. I mean, that was our main reason to
10 be here, because --

11 CHAIRMAN MC CARTHY: Okay. The Commission voted
12 to support the settlement.

13 UNIDENTIFIED SPEAKER: That's really unfortunate.

14 CHAIRMAN MC CARTHY: At the end of this hearing,
15 if one or two of those from your group would like to make
16 a statement to the Commission, we'd be very pleased to
17 receive that.

18 UNIDENTIFIED SPEAKER: What would be the point
19 of making a statement if --

20 CHAIRMAN MC CARTHY: That's your decision.

21 UNIDENTIFIED SPEAKER: -- if you have already
22 made the decision?

23 CHAIRMAN MC CARTHY: I understand. That's
24 your decision. That's your decision if you want to make
25 any public statement or not. All right. Let's move on

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1 with the calendar.

2 EXECUTIVE OFFICER WARREN: The first item
3 on the regular calendar, Mr. Chairman --

4 UNIDENTIFIED SPEAKER: We'll have to disrupt
5 this session for a while while we leave, since there
6 really doesn't seem to be much point to staying and
7 making a public statement on something that's already
8 happened.

9 But I want to make sure that everyone in this
10 room and in this audience knows that that draft settlement
11 agreement is going to force us -- all of us -- out of our
12 homes and destroy our houseboats in order to build a
13 public State Park in a time of a budgetary crisis where
14 you can't even pave the roads. No joking.

15 (Thereupon, there was an outcry from
16 members of the audience, which outcry
17 made the recording of further comments
18 impossible.)

19 CHAIRMAN MC CARTHY: We'll open with the regular
20 calendar, Mr. Warren.

21 EXECUTIVE OFFICER WARREN: The first item on
22 the regular calendar, Mr. Chairman, is Item 41,
23 the consideration of a proposed oil and gas lease for
24 the City of Hermosa Beach. This will be -- the city
25 has a difference of opinion with that expressed by the

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1 staff in its report to you.

2 The staff's report will be presented to you
3 by Paul Mount, who is the Division Chief of our Mineral
4 Resources Management Division.

5 Paul?

6 MR. MOUNT: Item 41 is to consider the proposed
7 City of Hermosa Beach oil and gas lease for granted tide
8 and submerged lands.

9 (Thereupon, the reporter requested
10 Mr. Mount so speak up because of the
11 noise emanating from outside the hearing
12 room.)

13 CHAIRMAN MC CARTHY: Close that door, please.

14 MR. MOUNT: To consider proposed City of
15 Hermosa Beach oil and gas lease for granted tide and
16 submerged lands, Los Angeles County.

17 The City of Hermosa Beach is proposing to
18 lease for an exploration and development of oil and gas
19 in certain tide and submerged lands granted in trust to
20 the City of Hermosa Beach in 1919.

21 Under Section 6872(a) of the Public Resources
22 Code, the Commission must find that drainage is occurring
23 in order to permit leasing of sanctuary lands. The staff
24 has found that drainage is not currently occurring. And
25 since these are sanctuary lands, the staff recommends

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1 denying the proposal of the City of Hermosa Beach to
2 lease its granted tidelands for oil and gas exploration
3 and development pursuant to PRC 6872(a) and PRC 6878.

4 CHAIRMAN MC CARTHY: Any other testimony?

5 EXECUTIVE OFFICER WARREN: Not from the staff
6 at this time, Mr. Chairman. We may have to respond to
7 presentations by the representatives from Hermosa
8 Beach. And there's a Mr. Rick Ferrin, who is the City
9 Manager of Hermosa Beach.

10 CHAIRMAN MC CARTHY: Mr. Ferrin.

11 MR. FERRIN: Good morning, Lieutenant Governor
12 McCarthy, Mr. Ziegler, and Ms. Burton, and ladies and
13 gentlemen.

14 I'm Rick Ferrin, City Manager of Hermosa Beach.
15 I sincerely appreciate the opportunity to present this
16 request for the Commission's permission to allow the
17 City of Hermosa Beach's leasing of its title in submerged
18 lands to the Macpherson Oil Company.

19 I am able to report significant progress in
20 meeting and complying with the Commission's requirements
21 and mandates since our last meeting in November of 1985.
22 Let me first introduce several distinguished gentlemen
23 who have accompanied me here today: Mr. Leonard Brock
24 and Mr. Francis Barker are both petroleum engineers with
25 superb credentials and are very, very highly esteemed in

1 their field; Mr. David Gautschy of Macpherson Oil is
2 the project manager; Mr. Donald Macpherson, Jr. and
3 Mr. Donald Macpherson, Sr., his father, owners of the
4 Macpherson Oil Company; and Mr. Gary Birch, ex-Mayor and
5 Councilman of the City of Hermosa Beach.

6 What I present for your approval today is clearly
7 a win/win proposal. In 1984, the voters of Hermosa
8 Beach supported ballot Measure P, which would allow for
9 oil drilling into the Hermosa Beach's tidelands and
10 submerged lands to recover reserves of oil and gas.
11 However, such an operation was to be performed only from
12 an uplands site.

13 Three years later, the residents reaffirmed
14 their will by soundly rejecting the entertainment of any
15 future plan that envisioned offshore platform-mounted
16 drilling and oil pumping in the coastal waters of the
17 Santa Monica Bay.

18 I must emphasize at this point that this
19 project does not incorporate any offshore drilling or
20 pumping from a platform site, nor does it include the
21 use of a single foot of pipeline placed in State waters.

22 The proposed recovery operation would be performed
23 using a slant drilling technique from an uplands site
24 at least 1600 feet from the coastline. This is an
25 environmentally sustainable project that poses at the

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1 very worst a negligible environmental impact or threat.

2 Before you decide whether or not to approve
3 our proposal, let's quickly review where we are in the
4 process of complying with your directions. At the November,
5 1985 meeting, the State Lands Commission established
6 three criteria that had to be satisfied. The first was
7 to determine that oil and gas existed in the proposed
8 area to be drilled; second, was the project in the best
9 interest of the State; and, finally, was there drainage
10 from the Hermosa into Redondo as a result of the
11 latter's well operations.

12 The drainage issue was thoroughly and, I might
13 add, independently investigated by our consultant and
14 the State Lands Commission' geologic and engineering
15 staff. Both determined that drainage was in evidence.

16 On March 20th of 1986, Mr. Willard sent my
17 predecessor, Kevin Northcraft, a letter verifying the
18 staff finding that there was drainage. The day before,
19 on March 19th, Claire Dedrick, Executive Officer of the
20 State Lands Commission, wrote to the Hermosa Beach City
21 Council that, quote:

22 "The drainage question has been
23 reexamined in detail by our engineering
24 and geological staff, who believe that
25 drainage is taking place."

End quote.

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1 Hermosa Beach was tasked with the production
2 of a sufficient EIR and a lease agreement, complete with
3 pass-through rights. Though six years have transpired,
4 the EIR and the lease documents required tremendous
5 effort. And might I remind you that Hermosa Beach has
6 a very small staff that is more than fully occupied;
7 nevertheless, this extremely important issue occupied
8 a front burner.

9 I have for your review a chronological list of
10 the actions taken both by Hermosa Beach and the Macpherson
11 Oil Company to comply with the Commission's requirements.
12 It's six pages long. So, I can assure you that we have
13 not been idle. In short, the City advertised and
14 solicited bids for an oil and gas lease of the City's
15 upland properties in June of 1986.

16 The tidelands lease will follow when final
17 approval has been given by this Commission. Windward
18 Associates, or Macpherson Oil, was the successful
19 bidder, and the City immediately began the processing of
20 an environmental impact report with an initial filing in
21 1987.

22 Final comments were received from the Commission
23 in March of 1990. Two months later, the EIR was adopted
24 by the Hermosa Beach City Council, and negotiation of the
25 terms of the tideland lease began in earnest. That lease

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1 was adopted by the City Council in January of this year.

2 In regard to CEQA, the City has prepared and
3 certified an EIR, which is in compliance with the State
4 guidelines. All comments submitted by the State Lands
5 Commission staff have a response as required by State
6 CEQA guidelines.

7 Prior to the City issuing construction permits,
8 a conditional use permit, or a CUP, is required by local
9 ordinance. The CUP is the City's method of imposing the
10 EIR mitigation measures as required by the State. All
11 mitigation measures, City requirements, other State and
12 local agency requirements, and any requirements which may
13 be imposed by this Commission must be met prior to the
14 development, testing, or production of oil.

15 Therefore, any environmental concerns that the
16 Commission may have regarding this project will be
17 thoroughly mitigated. The City of Hermosa Beach and its
18 residents want this project to happen. That's evidenced
19 by the 1984 vote on ballot Measure P, and the thousands
20 and thousands of hours and millions of dollars invested
21 both by the City and Macpherson Oil thus far.

22 We've accepted your requirements and labored in
23 good faith to comply with the criteria that the Commission
24 has established prior to giving its approval for the City
25 to lease the tidelands. The issue of the existence of

1 drainage was settled over six years ago, and that
2 drainage continues to this day.

3 We have complied with the requirements of CEQA,
4 and have produced a sufficient EIR. In addition, our
5 lease agreement is complete. All of these tasks have
6 been accomplished in good faith, and we are confident
7 in the Commission's -- as we were confident in the
8 Commission's ultimate approval once its requirements were
9 satisfied.

10 I truly believe we have earnestly and painstaking-
11 ingly executed your direction. It would not be out of
12 line for the City of Hermosa Beach to expect you to
13 execute your portion of this process in good faith as
14 well.

15 We are proposing a project which will bring
16 desperately needed revenue into Hermosa Beach, to say
17 nothing of the State. California imports a million
18 barrels of oil per day from ships that come from Alaska,
19 South America, and Indonesia. Over a 20-year period, the
20 Hermosa Beach field will potentially produce 30 million
21 barrels of oil. That equates to 300 one-hundred thousand
22 barrel tanker trips. There are a myriad of potential
23 benefits, both direct and indirect, that can be
24 attributed to this proposal, not the least of which are
25 more jobs, more and better parks, better beach maintenance,

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1 the enhancement of our school district, and significant
2 revenue to the State.

3 We are proposing a drilling and recovery
4 method, which Charles Warren referred to in his
5 November 28th, 1990 letter to Commissioner Davis as
6 having, quote, "real potential for application to fields
7 offshore in California, since it (1) eliminates offshore
8 platforms, (2) there's no risk of production spillage,
9 (3) there is no transportation by tankers, (4) known
10 reservoirs can be effectively and economically
11 developed, (5) it will increase domestic oil production,
12 and (6) it will bring increased revenues to the State of
13 California."

14 Ladies and gentlemen, what I bring today for you-
15 for your approval is clearly a winner. If you let this
16 one get away, the City of Hermosa Beach and the State of
17 California will truly lose a great opportunity.

18 Thank you.

19 CHAIRMAN MC CARTHY: The central issue here, it
20 seems to me, is the drainage question. Why don't you
21 have some of the engineers and maybe Mr. Macpherson
22 step forward, so we can ask some questions.

23 EXECUTIVE OFFICER WARREN: As the witnesses are
24 stepping forward, the statement of the witness is
25 substantially correct. I think I want to correct one

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1 thing, however. He said that these praconditions we
2 established by the State Lands Commission. Those
3 conditions were established by the Legislature. We're
4 merely attempting to follow what the Legislature has
5 provided by statute.

6 CHAIRMAN MC CARTHY: Can we get a couple of
7 chairs here? Now, we're dealing with the 1955 -- is
8 that the correct year -- statute that requires, among
9 other things, --

10 MR. HIGHT: 1941.

11 CHAIRMAN MC CARTHY: 1941?

12 MR. HIGHT: It was added --

13 CHAIRMAN MC CARTHY: Let me -- the statute I'm
14 asking about imposes the requirement that if such
15 deposits are being drained by means of wells upon
16 adjacent lands -- what year was that statute adopted?

17 MR. HIGHT: 1941.

18 CHAIRMAN MC CARTHY: All right. What evidence
19 do you have to suggest that the staff's interpretation
20 of whether drainage occurred or not? Because, as I
21 understand it, the drilling that went on in Redondo
22 Beach actually drained from Hermosa Beach in the meaning
23 of the statute.

24 Would you give us in succinct terms, sir, narrow
25 down the key reasons why our staff is wrong on the

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1 interpretation of that section of the statute?

2 MR. BROCK: I'm Leonard Brock. I'm a
3 consultant for the City of Hermosa Beach. I believe,
4 Governor, that the staff did agree that there was
5 drainage from Hermosa Beach to Redondo Beach. There
6 were several studies made by the State Lands Commission
7 staff, by consultants for the State Lands, by consultants
8 for the City of Hermosa Beach; and recently, a colleague
9 of mine, Francis Barker, did a further study.

10 I think the disagreement between the State
11 Lands staff and ourselves right now is whether there is
12 current drainage, not whether there was drainage when
13 the Redondo Beach wells were --

14 CHAIRMAN MC CARTHY: I think you state it right,
15 sir. One of the three recommendations proposed by the
16 staff to the Commission before us -- and I hope you've
17 seen this -- is that we make a finding that the drainage
18 of oil and gas is not occurring as a result of production
19 from wells on adjacent lands.

20 MR. BROCK: Currently? You mean as of today?

21 CHAIRMAN MC CARTHY: Why don't you go ahead and
22 make your statement, and then we'll let the staff
23 respond to it.

24 MR. BROCK: Okay. The Redondo wells -- the
25 Redondo Beach wells were abandoned last year. I believe

1 that even though those wells on Redondo Beach are not
2 currently producing, they did create pressure
3 differentials, which result in the oil from Hermosa Beach
4 currently being drained.

5 Also, to further our intention is the fact that,
6 actually, on the drill site that's being proposed to be
7 used to develop this offshore, there are two wells that
8 are produceable. They are not currently producing
9 because of some problems with the tank farms, in which
10 there was some contamination. And it is necessary to
11 have a tank farm reestablished so those wells can be
12 produced.

13 When they are produced, they will further the
14 drainage from the offshore area of Hermosa Beach into the
15 wetlands. I believe that that should satisfy the statute.
16 I think that the statute can be -- can be interpreted
17 by the fact that oil is being drained from Hermosa
18 Beach currently by the pressure sink of several hundred
19 pounds that was established over a period of 20 to 30
20 years when the Redondo Beach wells were producing.

21 I think that it's elementary in reservoir
22 engineering that oil flows from a high-pressure area to
23 a low-pressure area. And the fact that those areas were
24 made by the wells that were producing on Redondo Beach;
25 I think the fact that they are not currently producing

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1 is really not the question. The fact is there is oil
2 being drained from Hermosa currently.

3 CHAIRMAN MC CARTHY: All right. Is there any
4 other --

5 MR. BARKER: I agree.

6 CHAIRMAN MC CARTHY: Would you identify yourself,
7 sir?

8 MR. BARKER: My name is Francis Barker. One of
9 the fundamentals --

10 CHAIRMAN MC CARTHY: Mr. Barker, I'm sorry,
11 what's your position?

12 MR. BARKER: I'm also a consultant for
13 Macpherson Oil Company.

14 CHAIRMAN MC CARTHY: Thank you.

15 MR. BARKER: One of the fundamental
16 considerations in reservoir engineering is that oil and
17 fluids go from the high-pressure areas to the low-pressure
18 areas. And it's been established on fluid level surveys,
19 from which you can calculate pressures, that there's a
20 pressure sink in Redondo where millions of barrels have
21 been taken out, and the reservoir pressures on the
22 Hermosa Beach side are approaching diversion pressures.
23 And when you have that condition, oil flows across the
24 line, and you don't really need wells producing oil on the
25 Hermosa Beach side to cause continued flow across the line.

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1 CHAIRMAN MC CARTHY: All right. You, sir?

2 MR. MACPHERSON: My name is Don Macpherson, Jr.
3 of Macpherson Oil Company. And I concur in everything
4 these two gentlemen have stated.

5 This issue of drainage was an issue that was
6 resolved in our minds six years ago. And we have
7 proceeded with this project, spending monies and efforts
8 in approving this project.

9 There was a contention from the Commission staff
10 that drainage was questioned. And that was brought to
11 our attention. And at that time, there were fluid levels
12 taken from the wells producing in Redondo Beach and in
13 Hermosa Beach

14 Those fluid levels were witnessed by both the
15 State Lands Commission, the City of Hermosa Beach, and
16 the Macpherson Oil Company. That data was incorporated
17 within Mr. Brock's study of drainage, and his conclusion
18 of drainage is continuing.

19 So, that's really all I have to say.

20 CHAIRMAN MC CARTHY: Thank you. Would the
21 staff respond now to how they came to their decision on
22 defining drainage and what the relationship is between
23 when Redondo Beach interests stopped drilling and when
24 drainage stopped, if it did, in your opinion?

25 MR. MOUNT: Commissioner, it is true that there

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1 has been drainage occurring.

2 CHAIRMAN MC CARTHY: Identify yourself, please.

3 MR. MOUNT: I'm Paul Mount from State Lands.

4 And in '86, we, in fact, did issue a report that
5 drainage was occurring, and wells were on production at
6 that time producing oil. And that oil was being drained
7 from the Hermosa Beach side of this field.

8 Their wells have been shut in and abandoned;
9 approximately a year and a half ago was the last
10 production from the Redondo Beach side of that lease.

11 Oil is still migrating across the lease line.
12 Fluids are still migrating across the lease line from
13 Hermosa Beach to the Redondo Beach side. But there is
14 not currently any production on the Redondo Beach side.
15 There is the potential in adjacent lands uplands for two
16 wells to be produced and put on production, although they
17 are not currently producing. And it's possible that
18 by placing those two wells on production, oil and water
19 could migrate from the offshore lease to onshore leases.

20 CHAIRMAN MC CARTHY: Those two wells are under
21 whose control?

22 MR. MOUNT: I believe they are under the City
23 of Hermosa Beach. What oil company --

24 MR. BLOCK: Standard Oil Company. And the city
25 gets a small fee, but does not control the wells. The

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1 wells are controlled by the Standard Oil Company.

2 CHAIRMAN MC CARTHY: So, you're saying, Mr. Mount,
3 that if the Commission agrees with the staff
4 interpretation of this provision of the 1955 law, that
5 drainage must be immediately caused by active drilling,
6 the way to overcome that -- that's if the Commission
7 agrees with that interpretation -- the way to overcome
8 that, one possible way to overcome that deficiency may
9 be for these two wells in Hermosa Beach to be drilled?

10 MR. MOUNT: Placed on production.

11 CHAIRMAN MC CARTHY: Placed on production?
12 All right. Do you have anything else to add?

13 MR. MOUNT: At the time the Commission
14 originally considered this item, I think there's little
15 doubt that there was drainage occurring, as defined in
16 the statute.

17 CHAIRMAN MC CARTHY: Does the statute, as it has
18 been interpreted, anywhere state that active production
19 must be occurring to establish drainage?

20 MR. HIGHT: The statute is -- says nothing to
21 that point, nor do any of the cases or articles that --
22 well, there are no cases. None of the articles that
23 have been written on the statute deal with that issue.

24 The words of the statute are that draining --
25 that the lands must be being drained by means of wells

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1 upon adjacent lands. It doesn't say that they need to
2 currently be in production.

3 CHAIRMAN MC CARTHY: I take it from Mr. Mount's
4 statement that he and the other staff of the Commission that
5 have looked at this are satisfied that the drilling and
6 extraction that occurred from sites located in Redondo
7 Beach did cause drainage from oil that Hermosa Beach
8 now wants the opportunity to go after, and could legally
9 if drainage was established.

10 MR. MOUNT: That's correct.

11 MR. HIGHT: Correct.

12 CHAIRMAN MC CARTHY: Any questions from
13 Commissioners at this point? Any other comments you want
14 to make on this drainage issue? Just a minute, sir.

15 Any other comments you want to make on this
16 drainage issue, staff?

17 MR. MOUNT: No.

18 CHAIRMAN MC CARTHY: Mr. Ferrin, do you have
19 something you want to add to this? Why don't you use the
20 microphone, please?

21 MR. FERRIN: Lieutenant Governor McCarthy, I'm --
22 I don't profess to be a petroleum engineer. I'm actually
23 a data technical engineer, so I know something about
24 drawdown. What's happened here and what I think we see
25 is that there's a semantical problem here between the

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1 term "drainage" and that of "migration". The act of
2 pumping oil in the field at Redondo Beach has created
3 a very significant negative pressure. And it's because
4 of the continued existence of that negative pressure,
5 even though they are no longer intensifying or augmenting
6 that negative pressure, it is the existence of that
7 negative pressure -- which was a direct result of the
8 pumping of oil in Redondo -- that is causing what we now
9 have termed "drainage." We are now calling it
10 "migration".

11 It is still the same thing. It is a percolation
12 of oil from one area to another caused as a direct
13 result from the pumping and the negative pressure that
14 was produced.

15 CHAIRMAN MC CARTHY: All right. Any other
16 questions on the drainage issue?

17 COMMISSIONER BURTON: I'd like to ask a few.
18 I'm not a technical expert either. Although I understand
19 drawdown. It's a different kind.

20 (Laughter.)

21 COMMISSIONER BURTON: And I think the people who
22 are here are sufficiently knowledgeable, but they could
23 put it in terms that a layperson could understand. My
24 question is, is there a distinction between drainage now
25 and drainage if production were going on that can be

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1 quantified? You know, we're saying there's some sort of
2 drainage, but how is it different from the drainage that
3 seems to be recognized in your understanding of the
4 statute?

5 MR. MOUNT: The only difference between our
6 interpretation and Hermosa Beach's is that the statute
7 states by well. And since there are no wells, then,
8 by statute, there may be drainage but there are no
9 wells there to produce that oil and, therefore, sell it.

10 So, oil may be moving from Hermosa Beach to
11 Redondo Beach and, in fact, it's being lost to the Redondo
12 Beach side of the lease, but it's not being produced.
13 Therefore, by the statute, it says, "drainage by wells."
14 So, it may be being drained, but the second part of that,
15 "by wells," does not exist today, except for possibly
16 these two upland wells; that if they were put on
17 production, could be considered drainage by wells.

18 COMMISSIONER BURTON: What sort of a lease does
19 Redondo Beach have and why did they stop production?

20 MR. MOUNT: Well, that lease was before this
21 statute became effective, so that they stopped production
22 because the wells were uneconomic to produce, and they
23 shut them in and have since abandoned them.

24 COMMISSIONER BURTON: So, they're basically
25 capped, closed off?

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1 MR. MOUNT: That's correct.

2 COMMISSIONER BURTON: Never to be used again.

3 MR. MOUNT: That's correct.

4 COMMISSIONER BURTON: But the upland wells would
5 not affect Redondo Beach's oil.

6 MR. MOUNT: No, but the statute does not say
7 where the drainage has to be occurring. It just says
8 only adjacent land.

9 CHAIRMAN MC CARTHY: The testimony from one of
10 the proponents was that drilling in Redondo Beach has
11 been occurring for 20 to 30 years. Is that what your
12 research indicates --

13 MR. MOUNT: That's correct. They have been
14 producing that long.

15 CHAIRMAN MC CARTHY: Would you tell the
16 Commission how much -- how many barrels of oil, roughly,
17 have been extracted by Redondo Beach?

18 MR. MOUNT: Approximately 7.7 million barrels
19 of oil.

20 CHAIRMAN MC CARTHY: And do we have a rough
21 approximation of how much of that extraction could have
22 been the proximate cause of creating the pressure
23 differentials that affect Hermosa Beach's opportunity
24 now to drill for oil?

25 MR. MOUNT: Well, all of that extraction had an

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1 effect on the pressure. So, there is a pressure sink,
2 based on the measurements, on the Redondo Beach side.
3 That's causing the migration of oil, and water, and
4 fluids across -- from Hermosa Beach to Redondo Beach.

5 It's very difficult to quantify how much oil
6 that is. It's a significant number -- in the millions of
7 barrels of oil -- that has probably migrated or drained
8 across the lease line.

9 CHAIRMAN MC CARTHY: Okay. Any other comments?

10 COMMISSIONER ZIEGLER: Well, given the life
11 of the Redondo Beach well and the closure dates on that
12 side, I guess the question I have is why are we talking
13 about this now for Hermosa Beach?

14 MR. MOUNT: Well, you understand, this process
15 was started many years ago when, in fact, there was no
16 doubt about drainage occurring and that oil being
17 produced and Redondo Beach recovering that oil that came
18 from Hermosa Beach. That's not the situation today.

19 CHAIRMAN MC CARTHY: Any other questions on the
20 drainage issue?

21 Let's talk about environmental impacts. If the
22 Commission were to decide that the applicant should be --
23 should disagree with the staff's finding that drainage is
24 not occurring as a result of production from wells on
25 adjacent lands, and if the Commission were to find that

1 it was occurring as a result of drainage on adjacent
2 lands, the next issue is what environmental impacts are
3 there that have been discerned in the research of this
4 so far, and how would we address those issues?

5 EXECUTIVE OFFICER WARREN: The staff has
6 examined the environmental impact report prepared on this
7 project. Mr. Hight has looked at it carefully. The
8 environmental impacts seem to be minimal as is the risk.
9 I would prefer that he characterize his -- or summarize
10 his findings. But that's my impression.

11 MR. HIGHT: Yes, Mr. Chairman. The Sierra Club
12 and the Commission staff basically had the same
13 objections. And they were, one, that the EIR did not
14 adequately address the hazard footprint that the project
15 could create in the event of a blowout or an explosion;
16 that there was some noise and air pollution problems
17 that we didn't feel were adequately addressed.

18 I think those could be adequately addressed in
19 any permit that the Commission would -- that the city
20 were to issue for this project as conditions of the
21 project which would mitigate those concerns.

22 EXECUTIVE OFFICER WARREN: I would like to point
23 out that those concerns have to do with the operations on
24 the upland site -- the noise and the transportation
25 effects there would be to the adjacent landowners.

1 CHAIRMAN MC CARTHY: May I ask one of the
2 proponents to please respond? Incidentally, before I
3 do that, I want to acknowledge the presence of
4 Mr. Lee Bennett, who is the Staff Director for State
5 Senator Bob Beverly's office. If you'd like to testify
6 in a little while, Mr. Bennett, we'll be very happy to
7 receive your testimony.

8 Would one of the proponents, if you're able to,
9 please respond to the points just made about the Sierra
10 Club -- was there another organization that --

11 MR. HIGHT: The Lands Commission, also.

12 CHAIRMAN MC CARTHY: All right.

13 MR. HIGHT: Staff.

14 CHAIRMAN MC CARTHY: And the Lands Commission
15 staff has raised these two environmental questions, as
16 I understood them. Have you had an opportunity to look
17 at those objections and, if you have, do you have any
18 comment on them?

19 COMMISSIONER ZIEGLER: Mr. Chairman, there's one
20 additional issue I'd like the proponents to address,
21 and that is some concern about the wastewater from the
22 project being rather vastly underestimated, and what
23 contingencies you might have in place on that issue as
24 well.

25 MR. GAUTSCHY: My name is David Gautschy. I'm a

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1 consultant for Macpherson Oil Company. My position in
2 this is the project manager for construction of the
3 facilities. The two items that you just discussed -- the
4 fire hazard has been discussed thoroughly with the fire
5 chief just recently. And, as a mitigation measure,
6 numerous things can be done with the tank farm to protect
7 the local citizens, such as foam systems on the tanks,
8 water deluge systems. There are numerous methods. And
9 that's more of a detailed engineering thing that would
10 happen in the construction of the tank farm that normally
11 isn't handled at this kind of a level. In other words, we
12 would comply with all the requirements of the State and
13 also the City of Hermosa Beach requirements in fire
14 protection.

15 There was some comment about the footprint of
16 the hazard, and those could be determined based on
17 prevailing winds and a report could be prepared for that,
18 which I'm familiar with with another project in
19 Huntington Beach, which we're just completing, which we
20 did very similar things with.

21 The other item that you were talking about, could
22 you rephrase that for me, please?

23 EXECUTIVE OFFICER WARREN: The noise.

24 MR. GAUTSCHY: The noise situation. The general
25 thing that's done today is to comply with -- Hermosa

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1 Beach does have an oil code, and in there it establishes
2 the noise criteria that must be met. This can be done
3 in sound blankets around the outside of the facility
4 during drilling operation, with monitoring to make sure
5 that we fall within the compliance. The same thing
6 happened in Huntington Beach. There, we had a fulltime
7 consultant for the first week that was there 24 hours
8 a day monitoring the noise to make sure we stayed within
9 the requirements.

10 Anything we found that went out of those were
11 repaired immediately, and added additional blankets or
12 changed the operation to pull us into compliance.

13 So, I feel very comfortable that we can do that
14 on those concerns.

15 CHAIRMAN MC CARTHY: And you have no problem
16 or your clients have no problem, should this Commission
17 decide to find that drainage of oil and gas is occurring
18 as a result from production from adjacent wells -- if we
19 made it over that first hurdle, and I don't know what the
20 opinion of our Commission is at this point. If we get
21 past that to this issue, you think that we can resolve
22 this by attaching conditions to the permit that would be
23 involved? That was the staff recommendation here a moment
24 ago.

25 MR. GAUTSCHY: I would -- whatever those

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1 conditions might be, if they were in the realm of things
2 that I've seen that Hermosa Beach already establishes,
3 I know that we can meet those requirements. What you may
4 impose, I feel comfortable that we can do that as long
5 as it's within the realm of something to be done.

6 CHAIRMAN MC CARTHY: Any questions on this
7 aspect of the environmental concerns?

8 COMMISSIONER ZIEGLER: Yes. I have some concerns
9 that I saw in the EIR with regard to wastewater estimates
10 and how that discharge would be handled. Are there
11 contingency plans if your estimates are wrong?

12 MR. GAUTSCHY: I'm not real familiar with those
13 estimates. That's not in my end. Probably someone in
14 the engineering field can give you more information on
15 that than I could.

16 UNIDENTIFIED SPEAKER FROM AUDIENCE: The answer
17 is, yes.

18 CHAIRMAN MC CARTHY: Mr. Macpherson, you want
19 to add something? You're standing. Are you intending to
20 come up, or what's your wish? Or are you just stretching?

21 MR. MACPHERSON: On your question of water
22 disposal, the answer is, yes. Water disposal
23 requirements will be made by -- if water volumes are in
24 excess of estimates, then water disposal will be made
25 by reinjecting the water into wells into the same zone that

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1 it was produced from. So, it would be, in essence,
2 recycled back down into the same formation.

3 COMMISSIONER ZIEGLER: The economic feasibility
4 of that, so that the project isn't affected -- in terms
5 of your calculation on this, is that a cheap, conventional
6 practice, or is that something that could make this
7 project infeasible?

8 MR. MACPHERSON: No. That's really quite
9 typical in oil and gas development, disposing of water
10 by water disposal wells into the formation that it was
11 produced from.

12 COMMISSIONER ZIEGLER: Okay.

13 CHAIRMAN MC CARTHY: Any other environmental
14 considerations to raise that Commission staff wants to
15 point to beyond what we've already discussed?

16 EXECUTIVE OFFICER WARREN: No, Mr. Chairman.

17 CHAIRMAN MC CARTHY: Mr. Bennett, would you like
18 to make some remarks on behalf of Senator Beverly?

19 MR. BENNETT: Thank you very much, Mr. Chairman.
20 My remarks will be very brief. This has already been
21 covered in some detail.

22 The Senator had intended to walk over this
23 morning himself to make a brief pitch in support of the
24 city's request, but because of activities over at the
25 Capitol, he's unable to do so. And he just asked me to

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1 walk -- to come over and let you know that he is in
2 support of the city's position, and is asking the
3 Commission to stand behind its 1988 finding of the
4 existence of drainage.

5 This has been examined in great detail by the
6 city's engineering department and others who have
7 concluded that drainage does exist. This is an issue
8 of a value in millions of dollars -- not only to the
9 city, but to the State. And he would like you to give
10 great consideration to the city's position.

11 Thank you very much.

12 CHAIRMAN MC CARTHY: All right. Thank you very
13 much, Mr. Bennett.

14 Has our staff done any estimate of what the
15 revenue implications of this are?

16 While I'm asking you to do that, could I ask
17 Mr. Gene Mansfield to come up, please?

18 Mr. Mansfield's representing the California
19 Independent Petroleum Association. Mr. Mansfield? Welcome.

20 MR. MANSEFIELD: Thank you, Mr. McCarthy,
21 Commissioners. Thank you very much.

22 The California Independent Petroleum Association
23 is an association of the Macpherson Oil Companies of the
24 world -- small independents that still take oil out of the
25 ground in very difficult circumstances, very costly. We

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1 think the drainage issue is not an issue at all. There
2 is drainage. There has been drainage, and the
3 interpretation of the code section is one of
4 interpretation. We would urge that the Commission grant
5 the proposal and allow Macpherson to take this resource
6 to generate revenues for the State, the City of Hermosa
7 Beach, and to create some jobs at this much needed time,
8 and to keep the independent producers working in the
9 State of California on oil production onshore, and to
10 keep this vital resource coming and paying for the
11 State of California. Thank you.

12 CHAIRMAN MC CARTHY: Thank you very much.
13 Mr. Mansfield.

14 Any questions? Thank you very much.

15 MR. HIGHT: In answer to your question,
16 Mr. Chairman, based upon the price of oil and an estimate
17 by the city as to the number of barrels that would be
18 produced, revenue could be anywhere from 60 to \$100 million,
19 or could be lower, depending on the price of oil.

20 CHAIRMAN MC CARTHY: What part of that would
21 come to the State of California?

22 MR. HIGHT: Currently, the State would get none.

23 CHAIRMAN MC CARTHY: How is it split?

24 MR. HIGHT: It would be spent by the city in
25 their -- it would be divided basically into three

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1 increments. That portion of the oil that would come
2 from underneath the tidelands would go into the city's
3 tideland trust account. The portion that comes from the
4 upland would be divided between city, school districts,
5 and private entities.

6 CHAIRMAN MC CARTHY: Any further questions by
7 the members of the Commission?

8 Mr. Warren, do you have any closing comments?

9 EXECUTIVE OFFICER WARREN: No, Mr. Chairman.

10 CHAIRMAN MC CARTHY: I'm satisfied that
11 there is evidence that drainage of oil and gas did occur
12 as a result of production from wells on adjacent lands.

13 The evidence is that Redondo Beach drilling
14 occurred over 20 years and more; that considerable
15 amount of oil was taken out of the ground. There seems
16 to be no conflict between Commission staff and proponent's
17 staff and Hermosa Beach staff.

18 The engineering analysis is that drainage did
19 occur.

20 If the environmental issues can be satisfied
21 by imposition of conditions, as suggested, then I'm
22 inclined to amend the recommendations of the staff to
23 find -- to change Item No. 2. How do the other two
24 Commissioners feel about this?

25 COMMISSIONER BURTON: I'm with you on that. It

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1 seems to me it's hard for us to find that drainage is
2 not occurring as a result of production, given the
3 testimony that's been presented here. I understand
4 the staff's position, but it also seems to me that, given
5 the economics that have brought these representatives of
6 the city and the oil company to continue with their
7 project -- despite the fact that Redondo Beach has shut
8 down -- leads me to also think that, at some point,
9 Redondo Beach may rethink the economies may be there for
10 them to reopen the wells as well.

11 And, given that, I think further recognizing
12 how difficult it is to get through processes on public
13 lands to be able to complete projects these days -- I mean,
14 even a school, for Heaven's sake, takes three to five
15 years to build. And to have a for-profit entity continuing
16 with a project like this means to me that there are some
17 economics that make sense there, which, in my mind, raises
18 the question about the split of revenues on the lease,
19 and perhaps a review of that -- maybe with an eye toward,
20 in the longer term, having a more rational sharing of the
21 proceeds.

22 But I think, given as far as this has come, that
23 it's hard for us to find that drainage is not occurring
24 at this point.

25 COMMISSIONER ZIEGLER: I'm open-minded with

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1 regard to this project. But I share Susanne's concern
2 about the State bearing sort of none of the prospective
3 gain and yet, in the back of my mind, I'm not completely
4 convinced that there aren't some safety issues here that
5 we've missed today, and that we will be bearing the
6 environmental risks as the body that approves this thing.

7 I think I'm open-minded to the project, but I'm
8 just not prepared to vote affirmatively today on it.

9 COMMISSIONER BURTON: I'd like to make a motion
10 that we find that drainage is occurring as a result of
11 production from the wells. And I'm also comfortable with
12 the activity is exempt from the requirements as the staff
13 has outlined here.

14 MR. HIGHT: If the No. 2 finding were to be
15 that drainage is occurring, then we need to redo the
16 remainder of the findings. And that would take us a
17 few minutes. Perhaps we --

18 EXECUTIVE OFFICER WARREN: I gather that the
19 sense of the Commission, the Commission is of the majority
20 opinion to find the statutory conditions having been
21 met; that is, that drainage is, in fact, occurring as a
22 result of production, as Mr. Hight indicates, we will have
23 to revise findings of fact. We would also have to
24 negotiate a permit, which would have to come back to you.

25 For staff's purpose, in order to permit it to

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1 alter the findings and to negotiate the permit, your
2 action by finding drainage is, in fact, occurring would
3 instruct us to go back and revise the findings and, in
4 the meantime, to negotiate the permit, including
5 the conditions which we would then bring back to you
6 at your next meeting.

7 CHAIRMAN MC CARTHY: All right. So, you're
8 proposing that we not act on the findings today; that we
9 put this over to the next meeting, rewrite the findings,
10 and give you an opportunity to probably add another
11 recommendation dealing with the permit conditions.

12 EXECUTIVE OFFICER WARREN: Yes.

13 COMMISSIONER BURTON: I think perhaps the finding
14 we make today is that drainage is occurring, and that --

15 EXECUTIVE OFFICER WARREN: We'd appreciate that.

16 COMMISSIONER BURTON: -- the staff should follow
17 up on that finding with the appropriate technical actions
18 that need to be taken by the Board --

19 EXECUTIVE OFFICER WARREN: Yes.

20 COMMISSIONER BURTON: -- at a later meeting.
21 So, my motion would be to find there is drainage.

22 CHAIRMAN MC CARTHY: I endorse that approach.
23 Thank you, Mr. Warren. My view of this is that we can
24 create jobs. I'd love to have the State get a piece of
25 this change short of violating the Penal Code.

1 COMMISSIONER BURTON: It's not enough.

2 (Laughter.)

3 CHAIRMAN MC CARTHY: But create some jobs,
4 and that we don't create environmental problems at the
5 same time. We ought to move forward on this.

6 So, we unanimously endorse the motion, as just
7 explained by Commissioner Burton; that's the action on this
8 item. And we'll put this over to the next meeting for
9 final action on all parts of the issue.

10 EXECUTIVE OFFICER WARREN: Yes. Thank you.

11 CHAIRMAN MC CARTHY: Thank you all very much.

12 All right. On to the next regular calendar
13 item.

14 EXECUTIVE OFFICER WARREN: Item 42 and 43 will
15 also be presented by Mr. Mount.

16 MR. MOUNT: Item 42, Mr. Chairman, approve
17 amendment of State geothermal resources lease, PRC 6425,
18 Lake and Mendocino Counties. The amendment will include
19 a joint scientific research program with DOE and USGS
20 continues a review and approval by staff, and all other
21 terms and conditions of the lease remain in full force
22 and effect.. There are no other comments, Mr. Chairman.

23 CHAIRMAN MC CARTHY: Any questions by members of
24 the Commission? Anybody in the audience? If not, approved
25 as recommended. Next?

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1 EXECUTIVE OFFICER WARREN: Item 43.

2 MR. MOUNT: The Commission is being asked to
3 approve the agreements for the State sale -- for the
4 sale of geothermal steam between Unocal, Thermal, NEC,
5 and PG & E on State resource lease 4596, 4597, 6422, and
6 6423, the Geysers Steam Field, Lake and Sonoma Counties.

7 The new steam sales agreement will result in
8 more equitable prices for steam produced in State leases
9 and put the steam sales price in line with other prices
10 being paid for steam in the rest of the Geysers.

11 The approval of the agreement will be contingent
12 upon Unocal continuing participation in the California
13 Energy Commission's Technical Advisory Committee and
14 Unocal submitting a five-year operating plan for review
15 by the State Lands Commission.

16 It is also contingent on the Thermal and Unocal
17 paying to the State its share of the \$13 million and
18 \$5 million dollar field inventory writedown settlement,
19 respectively, of the agreement.

20 CHAIRMAN MC CARTHY: Questions by members of the
21 Commission? Anyone in the audience? All right. Approved
22 as recommended. Next?

23 EXECUTIVE OFFICER WARREN: Item 44, Mr. Chairman
24 and Commissioners, will be presented by Mr. Lance Kiley,
25 who's Senior Attorney on the staff. It concerns a

1 memorandum of understanding negotiated by the Resources
2 Agency involving the State Lands Commission and other
3 agencies addressing the problem of dredging on the Mad
4 River.

5 Mr. Kiley?

6 MR. KILEY: Mr. Chairman, Commissioners, this
7 item came about as a result of a concern by local
8 government and the agencies in the Resources Agency about
9 the continuing effects of gravel mining on the Eel River
10 in Northern California up near Eureka. The concern was
11 about the cumulative impacts of the continuous mining
12 in an area that has been deprived of its sand supply by
13 the drought over a period of many years, which resulted
14 in degradation of the stream, resulting in severe fish
15 impacts. And as a result of that concern, the Resources
16 Agency negotiated this memorandum of agreement between the
17 Resources Agencies involved and local government spelling
18 out the rights and responsibilities. And the result of
19 this would be that the gravel operators in the Mad River
20 Basin would be allowed to operate for this summer and
21 be assured that they comply for this particular year, and
22 supply a study of the cumulative effects that's going on,
23 which would be funded by the local operators.

24 CHAIRMAN MC CARTHY: Any questions? Approved as
25 recommended.

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1 EXECUTIVE OFFICER WARREN: Item 45, Mr. Chairman
2 and Commissioners, is to request authority for the
3 Executive Officer to execute two agreements for fiscal
4 year 92-93, depending upon the budget and other
5 considerations that is. This does not instruct; it
6 merely authorizes.

7 The second of the two items is a low priority
8 matter, which will be pursued only if -- well, I'm not
9 quite sure. I've said enough.

10 COMMISSIONER BURTON: I'll move approval of
11 that.

12 CHAIRMAN MC CARTHY: All right. Approved
13 unanimously. Is that it?

14 EXECUTIVE OFFICER WARREN: That's it,
15 Mr. Chairman.

16 CHAIRMAN MC CARTHY: Thank you, ladies and
17 gentlemen, very much. That concludes the Commission
18 meeting.

19 (Thereupon, the meeting was adjourned
20 at 11:25 a.m.)

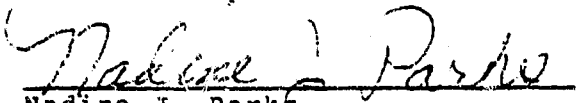
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CERTIFICATE OF SHORTHAND REPORTER

I, Nadine J. Parks, a shorthand reporter of the State of California, do hereby certify that I am a disinterested person herein; that the foregoing meeting of the State Lands Commission was reported in shorthand writing by me, and thereafter transcribed by me into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to the said meeting, nor am I interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 8th day of August, 1992.


Nadine J. Parks
Shorthand Reporter

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